

MULTIMEDIA



UNIVERSITY

STUDENT ID NO

--	--	--	--	--	--	--	--	--	--

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2018/2019

BAC 3644 – TAXATION 2
(All sections / Groups)

8 MARCH 2019
9.00 a.m. – 12.00 p.m.
(3 Hours)

INSTRUCTIONS TO STUDENTS

1. This Question paper consists of 9 pages excluding the cover page with 5 (five) Questions only.
2. Attempt **ALL** questions. All questions carry equal marks and the distribution of the marks for each question is given.
3. Please write all your answers in the Answer Booklet provided.

QUESTION 1

a) Owen & Co is a Malaysian incorporated resident company specializes in financial audit, tax and advisory services. It has a strong pool of human capital both foreign and local. The expertise of the industry is currently on great demand and has caused the company being plagued with high staff turnover. Recently, its Board of Directors has agreed to implement an incentive benefit scheme for its employees with an initial contribution of RM25 million.

Under the scheme, employees will be entitled to receive an amount of lucrative sum of money from the company if they retire from the company after 10 years of service. However, the employee will receive no payment if he or she is found guilty of any criminal offence or misconduct or terminated from the employment for any determined cause.

For the financial year ended 31 December 2018, the company made a provision of retirement benefit amounting to RM1.5 million and payable to the staff and claimed a deduction for this sum in the profit and loss account.

Required:

With reference to the Income Tax Act 1967 (as amended), discuss whether the claim of RM1.5 million by Owen & Co would be deductible in arriving at the adjusted income from its business for the year of assessment 2018.

(10 marks)

b) Mr. Steven Tan ('Steven') is the chief procurement manager of Acme Sdn Bhd ('the company') which carries on the business of manufacturing plastic products for household use. As a procurement manager, Steven is in charge of the company's purchasing of raw materials for its production process.

For the financial year ended 31 December 2018, the external auditor found that RM150,000 which has been recorded in the company's books as payment to creditors was not credited to the respective creditors' bank accounts. Steven failed to give satisfactory explanation of the discrepancy to the auditor or the management and was subsequently terminated by Acme Sdn. Bhd.. The company later write off the sum in the profit and loss account for the year ended 31 December 2018.

Required:

Based on the information provided, discuss whether Acme Sdn Bhd could claim the sum written off as deductible expense in arriving at the adjusted business income for the year of assessment 2018 under the Income Tax Act 1967 (as amended).

(10 marks)

[Total: 20 marks]

Continued ...

QUESTION 2

a) HD Sdn Bhd (HD) is a resident manufacturing company located in Alor Gajah Melaka and has been granted investment tax allowance of 60% for its promoted product. The production day of the promoted product was on 1 June 2017. HD closes its accounts on 31 December annually.

HD has made the projection of statutory income as follows:

Year of assessment	RM
2017	1,400,000
2018	1,800,000
2019	2,200,000

The qualifying capital expenditure amounted to RM1,500,000 is incurred in the year of assessment 2017 and RM950,000 for the year of assessment 2019 but none in the year of assessment 2018.

Required:

With reference to the investment tax allowance, compute the chargeable income for HD Sdn. Bhd. as well as the amount credited into the exempt income account for the year of assessment 2017, 2018 and 2019. (Support your answer with relevant computations)
(14 marks)

b) Perfect Solution Sdn. Bhd.(Perfect) acquired a plant and machinery for RM3,700,000 from Evian Ltd. (Evian), a non-resident company for its factory in Selangor on 1 May 2018. Under the agreement, employees from Evian would install the plant and machinery and give technical service to Perfect on site.

The fees charged by Evian for the installation and technical service were RM160,000 and RM650,000 respectively. The installation fee of RM160,000 was paid to Evian on 1 June 2018. The technical service fees were paid to Evian in two equal instalments, on 1 June 2018 and 1 July 2018 respectively. Perfect remitted the withholding tax to the Inland Revenue Board on 15 July 2018.

Required:

Compute the amount of withholding tax payable by Perfect to the Inland Revenue Board including penalties (if any).

(6 marks)

**[Total: 20 marks]
Continued...**

QUESTION 3

Core Intec Berhad is a tax resident company in Malaysia and involved in the manufacturing and trading of chemical products. The company closes its account to 30 November every year. With paid-up capital of RM2.6 million, the company prepared its Income Statement for the year ended 30 November 2018 as follows:

	Note	RM'000	RM'000
Sales			3,500
Less: Cost of sales	1		<u>1,540</u>
			1,960
Add: Other income	2		<u>345</u>
			2,305
Less: Expenses			
Salaries and wages		510	
Utilities		32	
Rental for office building		155	
Lease payment	3	99	
Professional fees	4	125	
Employees Provident Fund	5	102	
Bad and doubtful debts	6	98.5	
Repair and maintenance expenses	7	260	
Research and development	8	84	
Miscellaneous cost	9	<u>480</u>	<u>1,945.5</u>
Net profit before taxation			359.5

Notes:

1. Cost of sales include:

	RM
Realised foreign exchange loss on the acquisition of raw materials	135,000
Unrealised foreign exchange loss on the acquisition of raw materials	85,000
Realised foreign exchange loss on the acquisition of plant and machinery	48,000
Unrealised foreign exchange loss on the settlement of trade debts	29,000

2. Other income comprises of:

	RM
Interest income from a financial institution in Malaysia	25,800
Interest income from Brunei	105,000
Dividend income –(single-tier)	97,700
Gain on disposal of investment	<u>116,500</u>
	345,000

Continued...

3. Lease payment for the year comprises of:

The lease rental of a new car for the company's chairman amounts to RM60,000. The cost of the car was RM180,000. The car was exclusively used by the chairman.

The lease rental of a new van for the delivery of company's goods amounts to RM39,000. The cost of van was RM115,000. The van was licensed by the appropriate authority for the commercial transportation of goods.

4. Professional fees include the following:

	RM
Legal fees for recovery of trade debts	39,000
Legal fees for court charges **	54,000
Audit and accounting fees	10,500

** due to violation of Environmental Act

5. Employees Provident Fund:

The amount was paid to the employees' provident fund, an approved government agency for the retirement funds of the workers at the rate of 20% from salaries and wages paid.

6. Bad and doubtful debts consist of RM58,800 for the specific provision of bad debts. The balance is allocated for bad debts written off. No provision is made for the general provision of bad debts during the year.

7. Repair and maintenance expenses comprise:

	RM
Maintenance of company's motor vehicles	14,000
Repainting of office building	58,000
Provision of repair and maintenance expense	63,000
Installation new centralized air conditioners in the office building	87,000
General repairs and maintenance	38,000
	<u>260,000</u>

8. Research and development refers to the research and development cost incurred on the project approved by the ministry.

Continued...

9. Miscellaneous cost includes:

	RM
Insurance premium paid for the import of cargo to a foreign insurance company	124,000
Depreciation	89,000
Donation (cash to the approved institution)	21,000
Provision of renovation of office building for disabled person	46,000

Other information:

The company is eligible to claim capital allowance and balancing allowance of RM180,000 and RM23,000 respectively. During the year, the company also incurred loss from its another trading business amounting to RM158,000.

Required:

Starting with the 'net profit before taxation', compute the income tax payable of Core Intec Berhad for the year of assessment 2018.

Note: You are NOT required to explain the adjustments made in the tax computation except to indicate "Nil" where no adjusting entries are required. Show all workings.

[Total: 20 marks]

QUESTION 4

- a) Stanley is a Malaysia citizen. He purchased a double-storey house in Putrajaya on 1 April 2015 for RM660,000. This is his first residential house in which he also paid RM4,800 for legal fees and stamp duty for RM1,200 on the acquisition. This house was fully financed by MyBank. Stanley renovated the house and incurred RM24,000. On 25 October 2018, Stanley sold the house for RM770,000. He incurred advertisement cost of RM500, real estate agent's fee of RM7,700, legal fee of RM3,200 and valuation fee of RM3,000 in connection with the disposal of the house.

Stanley also owned a piece of land that has been given to him by his father (who is a Malaysian citizen) as a gift on 15 January 2014 where the market value of the land on that date was RM200,000. His father purchased the land at RM100,000 on 2 January 2011. Stanley subsequently sold the land on 20 December 2018 at the disposal price of RM225,000.

Continued...

Required:

Compute the real property gains tax payable (if any) on the disposal of real properties by Stanley.

(12 marks)

- b) Lina is a Malaysian citizen and the transactions with regard to her properties are as follows:

Location of properties	Pahang, Malaysia	Kuala Lumpur, Malaysia
Date of acquisition	21 August 2015	14 December 2014
Date of disposal	24 April 2017	21 July 2018
Disposal price (RM)	100,000	280,000
Acquisition price (RM)	115,000	210,000

Required:

Compute the real property gains tax payable (if any) on the disposal of real properties by Lina.

(8 marks)

[Total: 20 marks]

QUESTION 5

- a) Jean owns a cafeteria in Cyberjaya, Selangor. It closes its accounts to 31 December every year. Jean is under investigation by the Inland Revenue Board of Malaysia (IRBM) and she has provided information in respect of herself and her family:

Jean declared her net assets as at 31 December 2017 and 31 December 2018 were RM280,000 and RM470,000 respectively. For the year ended 2018, her income from business was RM158,000 and rental income was RM36,000.

Jean also provided the following information from her other records:

- Jean sold a land in 2018 and received a net sum of RM173,000 from the sale. The land was acquired by her in 2010 at a cost of RM120,000.
- She acquired shares for RM10,000 in 2014 which were later sold for RM18,000 in 2018.
- Jean received RM35,000 in 2018 from his late father's estate. She provided the evidence for this transaction.
- Jean sold her car in December 2018 for RM50,000 in which she paid RM75,000 on the acquisition.

Continued ...

- v. The following private and personal expenses were incurred by Jean in the year ended 31 December 2018:

Private and personal expenses	RM
Living expenses	31,000
Medical expenses	12,800
Income tax	18,600
Life and medical insurance premium	6,400
Miscellaneous expenses	34,000
Total	102,800

Required:

Based on the information provided, calculate the omitted income for the year of assessment 2018 by using the capital accretion method.

(14 marks)

- b) Inland Revenue Board (IRB) has imposed penalties for various offences with or without prosecution for failure to comply with the provisions of the Income Tax Act 1967 (as amended) particularly in relation to matters pertaining to tax evasion.

Required:

Discuss at least three of such offences and penalties.

(6 marks)

[Total: 20 marks]

Continued ...

APPENDIX 1**TAX RATES AND ALLOWANCES****i) Tax rates of resident company****Company with paid-up capital of not more than RM2.5 million**

Chargeable income	Rate
<= RM500,000	18%
Excess RM500,000	24%

Company with paid-up capital of more than RM2.5 million

All chargeable income	24%
-----------------------	-----

ii) Non-resident tax rate (other than non-resident company)

Type of income	Year 2018
	Rate of Tax (%)
Interest	15
Royalty	10
Technical and management fees	10
Lease rental of movable properties	10
Other income	28
Section 4(f) income	10

iii) Capital allowances

Type of assets	Initial Allowance (%)	Annual Allowance (%)
Office equipment, furniture and fittings	20	10
Plant and machinery – general	20	14
Plant and machinery (heavy) and motor vehicle	20	20
Industrial building	10	3

Continued ...

iv) **Agriculture and forest allowance**

	Capital expenditure – Agriculture	Rate of allowance (%)
(a)	Clearing and preparation of land for the purposes of agriculture	50
(b)	Planting of crops on land cleared for planting	50
(c)	Construction on a farm of roads or bridges	50
(d)	Construction on a farm of a building used for the welfare of persons or as living accommodation for a person employed for the working of a farm	20
(e)	Any other building	10
	Capital expenditure- Forest	
(a)	Construction of roads or buildings used for the purposes of extracting timber from a forest	10
(b)	Expenditure incurred on buildings used for the welfare of persons or as living accommodation for a person employed in or in connection with the extraction of timber from a forest.	20

v) **Real property gains tax****Disposal by all persons**

Holding Period	Citizen or Permanent Resident	Company	Non-Citizen or Non-Permanent Resident
Within 1 year	30%	30%	30%
Within 2 years	30%	30%	30%
Within 3 years	30%	30%	30%
Within 4 years	20%	20%	30%
Within 5 years	15%	15%	30%
Beyond 5 years	0%	5%	5%

End of Page

